



May 8, 2001

Talking Tax Cuts: *Rate Reductions and Small Businesses*

Part of President Bush's tax reduction proposal includes lowering the two current top rates of 36% and 39.6% for individual income taxes to a new 33% rate.

INDIVIDUAL TAX RATES AND SMALL BUSINESS:

While small-business owners pay taxes on the individual tax rate schedule where the top rate is 39.6%, corporations pay taxes at the corporate rate, where the top rate is 34% for most businesses.

77% of the tax relief that will result from reducing the top income tax rate to 33% will go to small-business owners and entrepreneurs (*Source: Treasury Department*).

Of the 1.3 million tax returns that will benefit from the new 33% rate, 63% or 819,000 will be returns of small-business owners and entrepreneurs (*Source: Treasury Department*).

WHAT REDUCING THE TOP TAX RATE MEANS FOR SMALL BUSINESS:

Research suggests that reducing the top tax rate from 39.6% to 33% could increase small-business receipts by as much as 9% (*Source: Treasury Department*).

Opponents of tax relief often assert that the President's plan is unfair since reducing the top tax rate will provide the "rich" with enough money (usually \$35,000) to buy a new Lexus. However, the small-business owners, 63 % of the total tax filers who will benefit from the top rate cut, are not likely to buy a new Lexus, but instead are likely to use the \$35,000 to:

- Reinvest in their businesses
- Expand their businesses
- Hire additional employees.

With unemployment rising, one of the best things we can do to help working Americans is provide incentives and resources for small businesses to expand and hire additional workers.

SMALL BUSINESS FACTS:

Small businesses account for 99.7% of America's employers, employing 53% of the private work force (*Source: House Small Business Committee*).

Small businesses account for 50% of our domestic economy (*Source: House Small Business Committee*).

In recent years, small businesses have been responsible for creating 80% of all new jobs in America (*Source: NFIB*).

Small Business Returns Per State

The following chart details individual income tax returns filed for 1999 with non-farm proprietor positive income.

NOTE: Since the chart does not include all small businesses which filed an individual tax return, the actual number of small businesses paying at the individual tax rate and therefore benefiting from a reduction in individual tax rates will be larger than the number shown.

Number of Returns:

United States: 17,463,000

Alabama	246,000	Missouri	346,000
Alaska	55,000	North Carolina	488,000
Arizona	276,000	North Dakota	45,000
Arkansas	164,000	Nebraska	117,000
California	2,342,000	Nevada	107,000
Colorado	329,000	New Hampshire	92,000
Connecticut	218,000	New Jersey	465,000
Delaware	38,000	New Mexico	113,000
Florida	1,019,000	New York	1,187,000
Georgia	486,000	Ohio	638,000
Hawaii	80,000	Oklahoma	236,000
Idaho	94,000	Oregon	235,000
Illinois	700,000	Pennsylvania	674,000
Indiana	343,000	Rhode Island	60,000
Iowa	194,000	South Carolina	218,000
Kansas	178,000	South Dakota	55,000
Kentucky	240,000	Tennessee	372,000
Louisiana	240,000	Texas	1,364,000
Maine	104,000	Utah	135,000
Maryland	327,000	Vermont	53,000
Massachusetts	427,000	Virginia	396,000
Michigan	536,000	Washington	363,000
Minnesota	337,000	Wisconsin	293,000
Montana	76,000	West Virginia	92,000
Mississippi	149,000	Wyoming	38,000
		District of Columbia	34,000

Source: Treasury Department

Top Tax Rates for Individuals and Small Businesses
(Sole Proprietorships, Partnerships, Limited Liability
Companies (LLC), and S-Corporations):

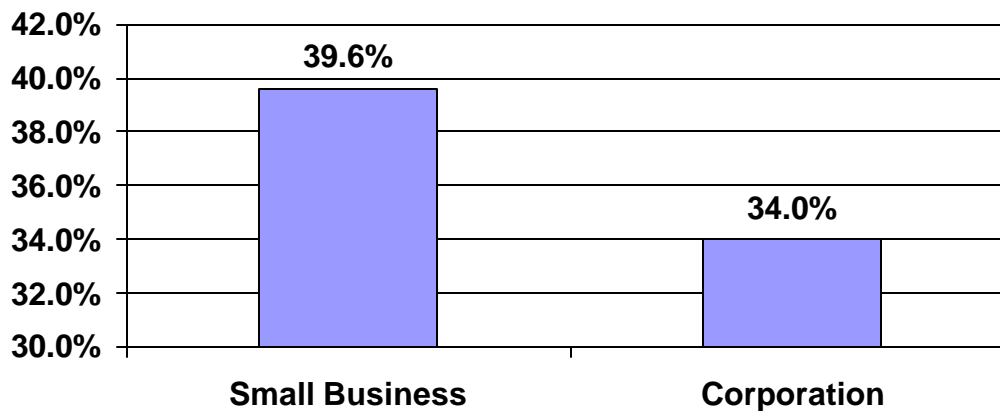
Rate:	Type of Return:	Applies to Taxable Income:
36%	Joint Return	Between \$166,500 and \$297,350
39.6%	Joint Return	Above \$297,350

Top Tax Rates for Corporations:

Rate:	Type of Return:	Applies to Taxable Income:
34%	Corporate	Between \$335,000 and \$10,000,000
35%	Corporate	Above \$10,000,000

For Example:

Tax Rate on \$350,000 in Taxable Income



Allocation of Tax Relief Resulting from Lowering the Top Tax Rate to 33%

